

Message Text

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ACTION EUR-12

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E.O. 11652: NA
TAGS: ECON, EFIN, PINT, CA
SUBJECT: QUEBEC BUDGET SCORES POLITICALLY

REF: QUEBEC 130; QUEBEC 132

BEGIN SUMMARY: WHILE THERE MAY BE SOME QUESTIONS IN MINDS
OF HARD-HEADED ANALYSTS ABOUT REAL EFFECT OF QUEBEC BUDGET
AND RELIABILITY OF PARIZEAU'S GROWTH AND INFLATION ESTIMATES,
BUDGET HAS SCORED WELL HERE IN BOTH PSYCHOLOGICAL AND POLITICAL
COLUMNS. MOST SEE BUDGET AS ADROIT MIX, PROVIDING SOME TAX
RELIEF AND STIMULATION WHILE AVOIDING ANY MARKED INFLATIONARY
IMPACT. AND EVEN AFTER OTTAWA'S REFUSAL TO GO ALONG WITH
QUEBEC'S MODIFICATIONS OF SALES TAX PROPOSAL, PROVINCIAL
GOVERNMENT CONTINUES TO GET HIGH MARKS FOR BLOCKING ATTEMPT
OF FEDERAL GOVERNMENT TO INTRUDE INTO PROVINCIAL TAX FIELD.
END SUMMARY.

1. PQ'S BUDGET HAS BEEN GENERALLY WELL-RECEIVED, WITH SUPPORT
CUTTING ACROSS BROAD LINES AND WITH SERIOUS CRITICISM SURPRISINGLY
LACKING. NEWSPAPER AND EDITORIAL COMMENT HAS BEEN PREDOMINANTLY
FAVORABLE. FISCAL MEASURES ARE VIEWED AS HELPING POOR AND MEDIUM
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INCOME CLASSES, AND AS REDUCING DISCREPANCY BETWEEN TAX BURDEN IN
QUEBEC AND OTHER PROVINCES. INDEXATION MEASURES ARE CONSIDERED
AS STEP FORWARD. MUNICIPALITIES, WHICH DIDN'T EXPECT MUCH, SEEM
SATISFIED WITH INTERIM MEASURES THAT WILL AT LEAST ALLOW THEM TO
STAY AFLOAT UNTIL NEW MEASURES, SCHEDULED TO BE DISCUSSED THIS
SUMMER WITH PROVINCE CAN, HOPEFULLY BE WORKED OUT. AS FOR LABOR,
QFL PRESIDENT LOUIS LABERGE SAID THAT HE WAS VERY HAPPY WITH PQ'S

NEW BUDGET, WHICH PROVIDES RELIEF TO PEOPLE IN LOWER INCOME BRACKETS.

2. BY HOLDING PUBLIC SECTOR GROWTH TO LIMITS OF GENERAL ECONOMIC GROWTH RATE, PARIZEAU MANAGED TO STILL CRITICISM FROM BUSINESS SECTOR. COMMENTS FROM REPRESENTATIVES OF MAJOR BUSINESS GROUPS IN QUEBEC INDICATE THAT THEIR MEMBERS GENERALLY THOUGHT BUDGET WAS FAIRLY PRUDENT, THAT IT WAS AS MUCH AS COULD BE DONE NOW, AND THAT IT WAS POPULAR FOR EMOTIONAL AND POLITICAL REASONS. SPOKESMAN OF QUEBEC CHAMBER OF COMMERCE SAID THAT QUEBECKERS ARE ALL SENSITIVE TO INTRUSIONS OF FEDERAL GOVERNMENT AND THAT MOST THEREFORE SUPPORT PARIZEAU'S STAND ON SALES TAX ISSUE. HE SAID HE HAD MET WITH PARIZEAU IN LAST SEVERAL DAYS AND FOUND PARIZEAU CONVINCED THAT OTTAWA WOULD HAVE TO FIND WAY TO GIVE QUEBEC WHAT IT WANTED IN WAY OF COMPENSATION FOR CUTS IN SALES TAXES. SPOKESMAN FOR CONSEIL DU PATRONAT, AN ORGANIZATION REPRESENTING EMPLOYERS OF ABOUT 80 PERCENT OF QUEBEC'S LABOR FORCE, AND WHICH HAS RECENTLY BEEN FEUDING WITH PREMIER LEVESQUE, SAID CONSEIL HAD BEEN CONSULTED BY PQ ON BUDGET AND THAT THEY WERE GENERALLY HAPPY WITH RESULTS.

3. AS FOR GENERAL ATMOSPHERICS, THERE IS SOME FEELING THAT PARTI QUEBECOIS MAY NOW BE SOMEWHAT MORE OPEN TO BUSINESS SECTOR THAN HAS FORMERLY BEEN CASE. AS EXAMPLE, SPOKESMAN FOR QUEBEC CHAMBER OF COMMERCE SAID THAT HE HAD JUST COME FROM MEETING WITH BERNARD LANDRY, MINISTER FOR ECONOMIC AFFAIRS, IN WHICH NEW DRAFT OF UNCLASSIFIED

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HEAD OFFICE LANGUAGE REGULATIONS WAS DISCUSSED. NEW REGULATIONS, HE SAID, WERE MUCH BETTER THAN THOSE PREVIOUSLY PROPOSED.

4. NOT SURPRISINGLY, MOST COMMON CRITICISM OF BUDGET COMES FROM THOSE EARNING MORE THAN DOLS 30,000 PER YEAR, WHOSE TAXES WILL GO UP, AND FROM TOBACCO AND BOTTLING INDUSTRY, WHICH WILL BE ADVERSELY AFFECTED BY NEW MEASURES. SOME ATTEMPT HAS BEEN MADE TO TIE HIGH-INCOME TAX INCREASE TO HEAD OFFICE EXODUS, ON THEORY THAT HIGHER TAXES AT EXECUTIVE LEVELS WILL MAKE IT EVEN MORE DIFFICULT, OR EXPENSIVE, TO ATTRACT EXECUTIVE TALENT TO MONTREAL. SPOKESMAN FOR CANADIAN CHAMBER OF COMMERCE SAW POLITICAL HAND IN DOLS 30,000 CUT-OFF, AS QUEBECKERS EARNING MORE THAN DOLS 30,000 ARE OVERWHELMINGLY ANGLOPHONES. WHILE BUSINESS REACTION HAS GENERALLY BEEN POSITIVE, THERE HAVE BEEN COMMENTS THAT BUDGET DOES NOTHING TO IMPROVE LONG TERM ATTRACTIVENESS OF INVESTMENT IN QUEBEC. MOST POTENTIALLY SERIOUS CONCERN, ALBEIT MUTED IN FACE OF GENERALLY FAVORABLE RESPONSE, HOWEVER, IS SKEPTICISM ABOUT ACCURACY OF PARIZEAU'S PROJECTIONS, WITH REVENUE GAINS BASED ON 4 PERCENT ECONOMIC GROWTH AND ABILITY TO CONTROL INCREASE IN GOVERNMENT EXPENDITURES SUSPECTED OF BEING OVERLY OPTIMISTIC.

5. DESPITE IMPLICATIONS OF LATTER CONCERNS ON OVERALL COMPLEXION

OF BUDGET AND RESERVATIONS BY MORE SOPHISTICATED THAT REAL EFFECT
OF BUDGET MAY BE LESS THAN EXPECTED, PARIZEAU, ON PSYCHOLOGICAL AND
POLITICAL COUNT AT LEAST, APPEARS TO HAVE COME OUT A WINNER.
IN POLITICAL CONNECTION, ITS ALSO WORTH NOTING THAT MEASURES
FOR INDEXATION AND PROPERTY TAX CREDITS BEGIN IN 1979, WHEN PARTI
QUEBECOIS IS EXPECTED TO BEGIN ITS REFERENDUM CAMPAIGN.
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